

# 9 Framework for Measuring, Monitoring, and Reporting on Results

A successful PPP depends in large part on the capacity of the government to keep the contract on track. This entails setting clear requirements of the partnership, monitoring the performance of all parties to the contract, reporting on results, and enforcing contract provisions that are not met.

Different entities are available to support, or to take on full responsibility, for monitoring progress against the targets specified in a contract. These entities include:

**Contract monitoring unit.** In some cases, a separate regulator does not exist or is not required. In this case, a unit can be developed within government to receive and verify reports on progress against the contract terms. This unit may be located within the sectoral ministry, a more independent ministry such as finance, or may be the PPP unit. To accomplish contract monitoring, the contract has to contain explicit details on the targets, acceptable procedures of measuring performance results, and the reporting regime. The unit, in addition, has to develop a procedures manual for verifying performance against the contract and for responding to any contract deviations. Where incentive payments are to be rendered, the unit should also have a method for ascertaining the basis for such payments, making payment, and reporting on and accounting for payments made.

**Regulator.** Where a regulator is present, there is approximately the same process as above, but the monitoring is against the provisions of sector regulations. This means overarching principles and methodologies are set out in regulations and the implementation detail is contained in the contract and a license (if applicable).

The regulator has the mandate to monitor compliance against the regulations and the license, publishes reports on performance, and enforces any penalties for nonperformance. Like a contract monitoring unit, the regulator must have procedure manuals to dictate the application of its responsibilities. In Papua New Guinea, for example (Box 19), created the Independent Consumer and Competition Commission to be an independent regulation body on contracts covering electricity, telecommunications, ports and harbors, and postal services.

### **Box 19: Independent Regulation: The Independent Consumer and Competition Commission of Papua New Guinea**

The Independent Consumer and Competition Commission (ICCC) of Papua New Guinea (PNG) was created in 2002 with jurisdiction over electricity, telecommunications, ports and harbors, and postal services. ICCC has the power to determine market structures, tariff setting, and service standards. The provisions of the ICCC Act apply to all businesses in PNG including government enterprises. The ICCC Act also applies to business outside PNG, which affects the PNG market.

In exercising its powers under the ICCC Act, ICCC focuses on the following primary objectives:

- enhance the welfare of the people by promoting competition and fair trade and protecting consumers' interests;
- promote economic efficiency in industry structure, investment, and conduct; and
- protect the long-term interests of the people with regard to the price, quality, and reliability of significant goods and services.

Specifically, ICCC is to:

- promote and protect the bona fide interests of consumers with regard to price, quality, and reliability of goods and services;
- ensure that users and consumers (including low-income or vulnerable consumers) benefit from competition and efficiency;
- promote and encourage fair trade practices;
- prevent the misuse of market power;
- promote and encourage the efficient operation of industries and efficient investment in industries;
- ensure that regulatory decision making has regard for any applicable health, safety, environmental, and social legislations; and
- facilitate effective competition and promote competitive market conduct.

The commission consists of three commissioners—one full-time commissioner and two associate part-time commissioners appointed for 5 years. By March 2004, ICCC was fully operational with over 40 staff.

Sources: [www.iccc.gov.pg](http://www.iccc.gov.pg); [www.eapirf.org/MenuItems/Organization/memberprofiles/ICCC.asp](http://www.eapirf.org/MenuItems/Organization/memberprofiles/ICCC.asp)

**Independent auditors.** Some countries find it advantageous to procure the services of independent technical and/or financial auditors. This may be in addition to or instead of the role of the contract monitoring unit or regulator. In some cases, the auditor provides an independent assessment of the performance, which provides credibility and support to the overall monitoring. In other cases, this contracted expertise replaces the need to retain an ongoing regulatory function. See Box 20 for Gaza’s experience in contracting out regulation.

#### **Box 20: Contracting Out Regulation in Gaza**

The Gaza Management Contract, one of the first private sector initiatives in the Middle East water sector, used an innovative contracting out strategy to overcome the limitations posed by weak local regulatory capacity. The contract used private “third party” technical and financial audits to calculate the performance-linked management payment. The auditor evaluated the operator’s declared performance against the targets set out in the management contract, once or twice a year. The contract created a simple qualitative scale to measure progress against target. If the operator earned “excellent” in the performance variables, its weighted average composite score would be 1 and this would allow it to earn 100% of the allotted annual performance linked fee of \$750,000. In the opinion of the Palestinian Water Authority (PWA), the use of an external auditor helped increase pressure on the operator to perform. The auditor was also able to bridge the stark information asymmetry gap between the operator and PWA. This example highlights the potential for using external auditors for formulating binding recommendations and addressing issues of lack of competence and limited independence in nascent regulatory agencies.

Source: Contracting Out Utility Regulatory Functions, Environmental Resources Management. January 2004.

An important role of any of these entities is to report on performance. This is accomplished through websites, published reports, reports to parliament, and information made available to customers.

While these entities initially employ international experts to strengthen capacity, the goal in the long run is to transition to fully local staff. This can be accomplished through training and effective twinning with regional and international peers to provide ad hoc advice, often from a regional perspective.